

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2312-02
Bill No.: HB 1025
Subject: Revenue Dept.; Taxation and Revenue - Sales and Use
Type: Original
Date: April 3, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	Less than \$22,000,000 to (\$3,463,365)	Unknown to (\$2,272,925)	Unknown to (\$2,366,829)
School District Trust	(\$727,478)	(\$757,642)	(\$788,943)
Conservation	(\$90,935)	(\$94,705)	(\$98,618)
Parks and Soil	(\$72,748)	(\$75,764)	(\$78,894)
Total Estimated Net Effect on <u>All</u> State Funds	Less than \$22,000,000 to (\$4,354,526)	Unknown to (\$3,201,036)	Unknown to (\$3,333,284)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0 to (\$1,136,462)	\$0 to (\$1,183,414)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Sales Tax Refunds

Officials of the **Department of Revenue (DOR)** state this legislation changes Section 144.190 to have sales tax refunds issued to the person legally obligated to remit the tax. DOR assumes this legislation could result in a decrease in sales tax refunds for FY 02 of approximately \$22 million. DOR assumes a minimal impact on programming to be completed with existing resources.

Since DOR's estimate is based on prior year refund amounts and DOR assumes taxpayers will become better informed about sales tax rules and not overcharge customers in the future with the passage of this legislation, **Oversight** has shown the fiscal impact in FY03 and FY04 as unknown.

Sales Tax Holiday

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would allow for a sales tax "holiday" on the purchase of clothing and shoes. This proposal adds various "school supplies" to the items that would qualify for the sales tax holiday.

BAP estimates the annual consumer spending in Missouri on clothing and shoes based on national estimates from the U.S. Department of Commerce - Bureau of Economic Analysis. BAP staff assumes Missouri represents 1.9% of U.S. totals. BAP staff estimates taxable sales for FY2002 to be \$6,427,700,000, taxable sales for FY 2003 to be \$6,686,100,000 and taxable sales for FY 2004 to be \$6,953,544,000.

BAP states, as was the case with similar proposals from last year, there is no information available that addresses what percent of these expenditures would qualify for the exemption or how effective this program would be in so far as motivating the public to shop for clothing during the tax "holiday".

BAP has estimated the level of Missouri consumer spending on "Stationary/School" supplies for FY02 at \$210,540,000 and for FY03 at \$277,380,000. The estimate is based on national data from the U.S. Department of Commerce - Bureau of Economic Analysis. BAP assumes that Missouri represents 1.9% of the national total which is Missouri's share of U.S. personal income. Growth of 8.0% is assumed for 2001 and beyond, as 8.0% was the growth rate seen in 2000, the most recent year of actual data.

Oversight based the revenue estimate on 4/365 of the FY 2002 taxable sales resulting in a loss to state funds of \$9.6 million in FY 2002 and \$7.3 million in FY 2003 due to the sales tax holidays. No adjustment was made for the \$100 cap. Also, no adjustment was made for any incentive effect this proposal might have on spending habits. Oversight assumes the Department of Revenue will
ASSUMPTION (continued)

enforce the provisions of the bill through post-audit in the field. If compliance is not monitored, the revenue impact could increase.

Officials of the **Department of Revenue (DOR)** state this legislation creates both a state and local sales and use tax holiday for all retail sales of clothing with a taxable value of one hundred dollars or less for the period beginning 12:01 a.m. on the first Thursday in August and ending at midnight on the Sunday following.

DOR will have to notify all sales tax accounts of the holiday period. 127,000 notification letters will have to be sent to the registered accounts at a cost of \$43,910. This will have to be done in July for the August period.

This legislation will have an administrative impact on DOR since it is assumed that DOR must track the localities for loss of local funds. Division of Taxation in order to track will need to have the retailer separately state on the sales tax returns with a new location code for clothing. The August period will affect annual, quarterly and month registrants and will result in some single and two location voucher filers to report on a long form for one month. Taxation will need a Tax Processing Tech I for every 34,000 errors generated by this new location; One Clerk II for pre-edit of every 184,000 additional return and one Data Entry Operator for every additional 170,000 return to key entry. The mainframe system will need to be modified for the new location code and for reports. It is estimated that 2,941 hours of programming time will be needed to complete the implementation of this legislation at a cost of \$99,677.

Oversight, for purposes of this fiscal note, has reflected the loss in sales tax revenue based upon the estimate provided by the Office of Administration, Budget and Planning and the actual impact similar legislation had on other states. Oversight assumes the mailing costs would be incurred in July before the August sales tax holiday. In addition, Oversight has included the programming costs and personnel requested by DOR since this legislation includes a reimbursement to local government for any local sales tax revenue lost for FY02 and it is assumed DOR will be required to track the sales tax revenue lost.

For a similar prior proposal, Oversight contacted three states that enacted similar legislation, the **State of Texas**, the **State of Florida** and the **State of New York**. Texas had a Sales Tax Holiday on clothing and footwear during a three day period in August, 1999. Florida had a nine day sales tax holiday period on clothing and footwear in August, 1998, and New York has had several such "holidays" in 1997, 1998 and 1999. Oversight assumes that similar impacts would occur in Missouri and have applied their taxable sales during the holidays to the Gross State Product in Chained (1992) Dollars, by industry from the U.S. Census Bureau, the Official Statistics, Statistical Abstract of the United States: 1998 to determine what Missouri's taxable sales in a similar ASSUMPTION (continued)

period might be. The comparison reveals that by using the Office of Administration, Budget and

Planning's estimated sales of clothing and footwear in Missouri for a given fiscal year, a reasonable estimate could be made to the actual impact a sales tax holiday would have. Oversight assumes that the same impact will occur whether the exemption applied to clothing or shoes under \$500 as it would for clothing under \$100. Oversight also assumes that the results could be applied over a three day exemption as it would for a seven day exemption, as it would for a thirty-one day exemption.

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Revenue - General Revenue Fund</u>	Less than		
Reduction in sales tax refunds	\$22,000,000	Unknown	Unknown
<u>Transfer to Local Government</u>			
Reimbursement for loss in local sales tax revenue	(\$1,091,218)	\$0	\$0
<u>Cost - Dept. of Revenue (DOR)</u>			
Personnel (3 FTE)	(\$20,240)	\$0	\$0
Fringe Benefits	(\$6,746)	\$0	\$0
Postage	(\$43,910)	\$0	\$0
Programming & State Data Center	<u>(\$118,816)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	(\$189,712)	\$0	\$0
<u>Loss to General Revenue Fund</u>			
Sales tax holiday	<u>(\$2,182,435)</u>	<u>(\$2,272,925)</u>	<u>(\$2,366,829)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	Less than \$22,000,000 to <u>(\$3,463,365)</u>	Unknown to <u>(\$2,272,925)</u>	Unknown to <u>(\$2,366,829)</u>
<u>Loss to School District Trust Fund</u>			
Sales tax holiday	(\$727,478)	(\$757,642)	(\$788,943)
<u>Loss to Conservation Fund</u>			
Sales tax holiday	(\$90,935)	(\$94,705)	(\$98,618)
<u>Loss to Parks and Soil Funds</u>			
Sales tax holiday	<u>(\$72,748)</u>	<u>(\$75,764)</u>	<u>(\$78,894)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
---	---------	---------	---------

ESTIMATED NET EFFECT TO ALL STATE FUNDS	Less than \$22,000,000 to <u>(\$4,354,526)</u>	<u>Unknown to (\$3,201,036)</u>	<u>Unknown to (\$3,333,284)</u>
--	---	--	--

<u>FISCAL IMPACT - Local Government</u>	FY 2002	FY 2003	FY 2004
---	---------	---------	---------

<u>Income from General Revenue</u>			
Reimbursement	\$1,091,218	\$0	\$0

<u>Loss to Cities</u>		\$0 to	\$0 to
Sales tax holiday	(\$654,731)	(\$681,877)	(\$710,049)

<u>Loss to Counties</u>		\$0 to	\$0 to
Sales tax holiday	(\$436,487)	(\$454,585)	(\$473,366)

ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	<u>\$0</u>	<u>\$0 to (\$1,136,462)</u>	<u>\$0 to (\$1,183,414)</u>
---	-------------------	--	--

FISCAL IMPACT - Small Business

Small businesses who sell clothing and/or school supplies would be expected to be fiscally impacted to the extent that they would no longer collect and pay sales tax on these taxable items. Small businesses who would purchase clothing and/or school supplies would pay less for such items.

Sales tax paperwork will be increased for the month that the "holiday" sales tax days are exempt.

DESCRIPTION

This bill creates a state and local sales and use tax holiday for certain clothing and school supplies purchased during a 4-day period each August. The state will reimburse any losses by political subdivisions incurred during the sales tax holiday in August 2001. Beginning January 1, 2002, any political subdivision may opt out of the holiday by adoption of a local ordinance. This portion of the bill will expire July 1, 2004.

DESCRIPTION (continued)

The bill also requires that any request for a refund of sales taxes by a person who collects and remits the tax will only be granted if the person demonstrates to the satisfaction of the Director of the Department of Revenue that the amount will be refunded or credited to the person who originally paid the sales tax. The restriction will not apply if the person seeking the refund shows to the director's satisfaction that he or she originally paid the tax and that it was not collected from the purchasers.

The bill contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Division of Budget and Planning
States of Texas, Florida and New York



Jeanne Jarrett, CPA
Director

April 3, 2001